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27 February 1986

MEMORANDUM FOR: Director of Central Intelligence

VIA: Chairman, National Intelligence Council

FROM: Douglas J. MacEachin
Director of Soviet Analysis

SUBJECT: Analysis of Soviet Cash Flows

REFERENCE: Memo from DCI to C/NIC, dtd 20 Feb 86,
Same Subject

1. With regard to your memorandum of 20 February 1986, we agree with Mr. Robinson that, in the aggregate, Soviet foreign activities are possible only with foreign borrowing. However, by our calculations of USSR's balance of payments position, financial inflows, including borrowing, exceed known expenditures by an average of \$3 billion over the last several years. Unaccounted Soviet expenditures include such items as hard currency assistance to client states (probably under \$1 billion) and costs of covert operations and routine diplomatic and commercial activities.

2. While our estimates do not capture all of Soviet financial flows and, by implication, expenditures, we believe that unrecorded net inflows--including interbank deposits discussed by Mr. Robinson--are small. Because the Soviets conduct their financial transactions through Western financial institutions that are required to routinely report their

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SUBJECT: Analysis of Soviet Cash Flows

activities to government authorities, most of Moscow's financial flows are captured in reported Western statistics. These conditions hold true for Soviet-owned banks in the West. Like all Western financial institutions, Soviet-owned banks want to attract deposits from other Western entities, including interbank funds. All such deposits probably amount to about \$5 billion, [REDACTED] Interbank time deposits, as reported to you by [REDACTED] are less than \$200 million. These funds cannot indiscriminately be transferred to Moscow but must be lent in accordance with government regulations--which limit the share of overall loans a bank can make to any borrower--and reported to the appropriate authorities. We estimate that outstanding Soviet loans from Soviet-owned banks in the West were under \$3 billion at the end of 1985, about 10 percent of total Soviet debt to the West.

3. We are unaware of any current Soviet efforts to obtain control of Western banks as described in the 16 February New York Times article. But the article does highlight the importance of timely intelligence in monitoring developments of national security interest. I will ensure that our analysts following Soviet financial dealings keep their eyes out for suspicious transactions. [REDACTED]

[REDACTED]

4. We would welcome the opportunity to discuss with Roger Robinson his ideas on Soviet financial activities. In addition, we are in the process of preparing a typescript memorandum assessing the impact of recent oil price declines and the dollar depreciation on Soviet hard currency earnings and what options the Soviets may have in dealing with this situation.

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Douglas J. MacEachin

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3
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